

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

First-Class Package Service (FCPS)
Service Standard Changes, 2021

Docket No. N2021-2

PRESIDING OFFICER'S INFORMATION REQUEST NO. 2
AND NOTICE OF FILING UNDER SEAL

(Issued July 1, 2021)

Pursuant to Order No. 5920¹ and 39 C.F.R. §§ 3020.117 and 3020.118, the Postal Service is requested to respond to the following questions to clarify the record on its request for an advisory opinion under 39 U.S.C. § 3661(c) regarding First-Class Package Service (FCPS) Service Standard Changes.² To facilitate inclusion of the requested material in the evidentiary record, the Postal Service shall have a witness attest to the accuracy of the answers. For each question, produce every document (including any calculations, analysis, assumptions, studies, or workpapers) that were used, relied upon, or referenced in preparing the response. Responses shall be provided as soon as they are available, but no later than July 8, 2021.

¹ Notice and Order on the Postal Service's Request for an Advisory Opinion on Changes in the Nature of Postal Services, June 21, 2021 (Order No. 5920).

² United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, June 17, 2021 (Request).

The following questions refer to witness Foti's testimony (USPS-T-3):³

1. Please refer to USPS-T-3 at 1. The Postal Service states that “package volumes increasingly originate closer to end customer locations, as retailers fulfill their products closer to the end consumer.”
 - a. Please explain whether the Postal Service expects the percentage of First-Class Package Service (FCPS) volumes originating closer to end customer locations to increase in response to the diminished FCPS service standards.
 - b. Please explain whether the increasing proportions of FCPS volumes originating closer to end customer locations thus far, along with the predicted growth among local FCPS volumes⁴ and the expected continued decline in First Class Mail (FCM) volumes,⁵ could become obstacles to cost-effectiveness of long-distance transportation under the proposed FCPS service standards. USPS-T-3 at 8-9.
 - c. Please provide the quantitative analysis showing the change(s) in the percentage of inter-Sectional Center Facility (SCF) FCPS over the past 5 years. In addition to providing this analysis at the product-level, please disaggregate this analysis for Commercial FCPS and Retail FCPS.

³ Direct Testimony of Thomas J. Foti on Behalf of the United States Postal Service (USPS-T-3), June 17, 2021 (USPS-T-3).

⁴ The Postal Service projects no net impact on FCPS volumes within the network, suggesting that the expected growth in local volumes might be associated with a decline in non-local, longer distance volumes. *Id.* at 8-9.

⁵ The Postal Service expects continued decline in FCM volumes under the existing FCM service standards. See Docket No. N2021-1, Direct Testimony of Robert Cintron on Behalf of the United States Postal Service (USPS-T-1), April 21, 2021, at 19-20, 26. The Postal Service also projects a 1.63 percent decline in single-piece FCM volume, and a 0.65 percent decrease in First-Class Workshare Mail volume, in response to the implementation of the proposed FCM service standards. See Docket No. N2021-1, Direct Testimony of Thomas E. Thress on Behalf of the United States Postal Service (USPS-T-5), April 21, 2021, at 37.

The following questions refer to witness Hagenstein's testimony (USPS-T-1):⁶

2. Please refer to Library Reference USPS-LR-N2021-2/4, June 17, 2021, Excel file "14_SSD_5D_Vol_Impacts_CONUS_Public.xlsx" (FCM and FCPS modeled network results file), tab "Finance_Summary Surface." Please also refer to Docket No. N2021-1, Library Reference USPS-LR-N2021-1/3, April 21, 2021, Excel file "3_SSD_5D_Vol_Impacts_CONUS.xlsx" (FCM modeled network results file), tab "Finance_Summary Surface."
 - a. Please refer to cells D5:D6 in each file. The FCM modeled network results file suggests a 7 percent mileage reduction in inter-Processing and Distribution Center (P&DC) contracted transportation, while the FCM and FCPS modeled network results file suggests a 13 percent mileage reduction in inter-P&DC transportation (cell D6 in each file). For inter-Cluster transportation, the FCM modeled network results file suggests a 4 percent mileage reduction, while the FCM and FCPS modeled network results file suggests an 11 percent mileage reduction (cell D5 in each file). Please explain how the Blue Yonder[®] Transportation Modeler (TMOD) software accomplished additional mileage reductions in inter-P&DC and inter-Cluster transportation in the FCM and FCPS modeled network, as compared to mileage reductions accomplished under these contract categories in the FCM modeled network.
 - b. Please refer to cells B4:B6 of the FCM and FCPS modeled network results file. Please refer also to Library Reference USPS-LR-N2021-2/1, June 17, 2021, Excel file "USPS-LR-N2021-2_FCPS Transportation Savings-Public.xlsx" (Transportation savings file), tab "Highway," cells B30:B32. The values in the FCM and FCPS modeled network results file suggest that inter-P&DC transportation accounts for 1 percent of total baseline network's mileages, while 21 percent and 78 percent of mileages

⁶ Notice of Filing Replacement Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service (USPS-T-1), June 21, 2021 (USPS-T-1).

are for inter-Cluster and inter-Area contracted transportation, respectively. The values in the Transportation savings file suggest that 12 percent of the Fiscal Year (FY) 2020 surface transportation costs, used by the Postal Service to calculate surface transportation-related savings, were incurred on contracted P&DC transportation, while 16 and 72 percent of costs were incurred on inter-Cluster and inter-Area contracted transportation, respectively. Please explain how the actual FY 2020 mileages mirror the percentages of the FY 2020 surface transportation costs incurred for each listed contract category. Please also explain what caused this discrepancy between the actual FY 2020 surface network costs and the associated baseline network mileages.

3. Please refer to USPS-T-1 at 18-19. During the model's second iteration, current air Origin and Destination Pairs (OD Pairs) were introduced to the modeled network. The model either utilized the existing network routings (from the first iteration of the modeled network) or developed new routings exclusively for air OD Pairs.⁷ Please provide the percentages of FCM and FCPS volumes that are currently transported by air, respectively. For each of the FCM and FCPS volumes currently transported by air, please also specify percentages of their respective volumes which were placed on existing surface routings created during the first model iteration.
4. Please provide information for the following tables.

FY 2020 actual inter-SCF network			
	Number of daily trips	Number of daily mileages	Capacity utilization
Inter-Area			
Inter-Cluster			
Inter-P&DC			
TOTAL			

⁷ An OD Pair refers to origin P&DC - destination Area Distribution Center - destination Sectional Center Facility pair. *Id.* at 18.

FY 2020 actual inter-SCF network adjusted to exclude transportation outside the scope of the model			
	Number of daily trips	Number of daily mileages	Capacity utilization
Inter-Area			
Inter-Cluster			
Inter-P&DC			
TOTAL			

Modeled network which resulted from the first iteration			
	Number of daily trips	Number of daily mileages	Capacity utilization
Inter-Area			
Inter-Cluster			
Inter-P&DC			
TOTAL			

Modeled network which resulted from the second iteration			
	Number of daily trips	Number of daily mileages	Capacity utilization
Inter-Area			
Inter-Cluster			
Inter-P&DC			
TOTAL			

Final network, with only cost-effective routings			
	Number of daily trips	Number of daily mileages	Capacity utilization
Inter-Area			
Inter-Cluster			
Inter-P&DC			
TOTAL			

Please provide the requested information for total inter-SCF network if it is not available at the contract category level.

5. Please refer to USPS-T-1 at 19-21. The Postal Service states that 6 days of volumes were modeled to allow efficient connection throughout the end-to-end network, and that this allowed pairing of shipments dispatched on day 1, with shipments dispatching on day 2 along the line of travel to final destination. To determine cost-effectiveness of surface routes created exclusively for air OD Pairs, the Postal Service states that routes which launched on day 1 were evaluated.
 - a. Please specify whether a surface routing created exclusively for air OD Pairs, and routed as “all drops and one pick” or as “all picks and one drop,” was modeled to transport only volumes currently transported by air, or whether it was modeled to transport both volumes currently in the air network and volumes currently in the surface network for a portion of trip. If the former (modeled to transport only volumes currently transported by air), please refer to questions d. and e., below. If the latter (modeled to transport both volumes currently in the air network and volumes currently in the surface network for a portion of trip), please refer to questions b. through e., below.
 - b. Please provide an example of an “all drops and one pick” trip for which volume declines over the course of the route. Please also identify the current transportation modes for the transported volumes dropped at all destinations along the line of travel.
 - c. Please provide another example of an “all picks and one drop” trip, for which volume increases over the course of the route. Specifically, please identify the current transportation modes for the transported volumes picked up at each origin along the line of travel.
 - d. Please explain how cost-effectiveness was determined for “all drops and one pick” routings launched on day 1. Specifically, please identify which distances were used to estimate the cost of surface transportation and

what weights were used to determine the cost of air transportation for multi-leg trips.

- e. Please explain how the cost-effectiveness was determined for “all picks and one drop” routings launched on day 1. Specifically, please identify which distances were used to estimate the cost of surface transportation and what weights were used to determine the cost of air transportation for multi-leg trips.
6. Please refer to USPS-T-1 at 22-25. Please provide additional information related to Surface Transfer Center (STC) operations.
- a. Please provide a list of STCs used in the model. For each STC, please provide the following information:
 - i. Identify each STC as either a contracted or a postal-operated site.
 - ii. Provide FY 2020 annual volumes processed in each STC.
 - iii. Provide modeled volumes projected to be routed through each STC (daily and annual).
 - b. Please confirm that the STCs listed in response to question 6.a. include the most recently acquired facilities. If not confirmed, please provide the list of the most recently acquired STCs which were not included in the model.
 - c. The Postal Service states that “[c]urrent contracted STCs are expected to process and transfer volumes within the two-hour window.” USPS-T-1 at 29.
 - i. Please explain whether the time to process and transfer volumes at STCs was increased in the modeled network under the proposed changes to both the FCM and the FCPS service standards. Please compare this to the time used in the modeled network under the proposed FCM service standards in response to increase in volumes routed through STCs.

- ii. Please provide the expected time to process and transfer volumes at postal-operated STCs.
 - iii. Please explain whether the Postal Service monitors actual processing/volume transfer times for STCs. If actual processing/volume transfer times for STCs are monitored, please provide average processing/volume transfer times for each STC listed in response to question 6.a., above. If processing/volume transfer times at STCs are not monitored, please explain why.
 - iv. Please explain whether the Postal Service assesses penalties to contracted STCs which do not process volumes within the expected 2-hour window. If so, please explain how the penalties are assessed. If the Postal Service does not assess penalties to contracted STCs for poor performance, please explain the reason(s) that the Postal Service does not assess penalties to contracted STCs for not processing volumes within the expected 2-hour window.
7. Please refer to USPS-T-1 at 32. Please provide daily trips and mileages, as well as annual trips and mileages traveled by transportation outside the scope of this model in FY 2020. Please provide this information for all applicable contract categories (*i.e.*, inter-P&DC, inter-Cluster, and inter-Area).
8. Please refer to USPS-T-1 at iii n.2. The Postal Service states that:
- Changes to First-Class Package service standards would also incidentally affect international mail service standards for small packets and bulky letters, in that First-Class Package service standards generally apply to inbound international small packets and bulky letters from domestic origin airports to delivery points, and for outbound international mail from origin to International Service Center. We are not proposing any service standard changes regarding packages or changes to caller service through this proceeding,
- a. Please describe in detail what effects the proposed FCPS service standards will have on international mail service standards for small packets and bulky letters. In your response, please indicate which sizes and shapes of “international small packets and bulky letters” will be

governed by the proposed FCPS service standards and identify what service standard(s) will be applied to the remainder of the “international small packets and bulky letters.”

- b. Please file any material (including any calculations, analysis, assumptions, studies, or workpapers) that detail the impact that the proposed FCPS service standards are expected to have on “international small packets and bulky letters,” including what percentage of small packets and bulky letters are expected to be affected.
 - c. Please identify any other mail products whose service standards may be affected by the proposed FCPS service standards. In your response, please specifically explain whether the following products and categories will be affected, and if so, how would the product or category be affected:
 - i. Outbound Single-Piece First-Class Package International Service.
 - ii. Competitive domestic negotiated service agreements (NSAs) that include FCPS products in the agreements.
 - iii. Competitive international negotiated service agreements that include Outbound Single-Piece First-Class Package International Service in the agreements.
9. Please refer to USPS-T-1 at 35, Figure 7. Please provide separate graphs disaggregated for:
- a. FCPS volume by service standard for commercial NSAs.
 - b. FCPS volume by service standard for non-NSA and retail FCPS.
10. Please compare and contrast the process used to develop the initial service standards for FCPS with the process used to determine the proposed service standards.
11. Please confirm that the process used to develop the proposed service standard for FCPS is identical to the process used to determine the proposed service

standard for Market Dominant First-Class Mail. If not confirmed, please explain the differences in processes.

12. Please refer to USPS-T-1 at 4. The Postal Service states that “[a]n estimated 14 to 48 percent reduction in the number of air charters may be possible depending on the final volume of the lanes identified to shift from air to surface transportation.”
 - a. Please provide the source data and methodology underlying the calculation of the estimated reduction in the number of air charters.
 - b. Please confirm that the term “lanes” in the above-referenced passage is used synonymously with origin-destination pairs.
 - c. Please confirm that the Postal Service uses air charters in transporting a product when its network of regularly-scheduled commercial air carriers cannot support the volumes to be transported.
 - d. Were all air charters that were used in FY 2020 exclusively used for FCPS products?
 - i. If no:
 1. Please identify other mail products that used the same air charters flights as FCPS in FY 2020.
 2. Please quantify the proportion of air charter flights used for FCPS and the proportion of total air charter flight costs incurred by FCPS in FY 2020.
 3. Given that FCPS used only a proportion of air charter flights, please explain the basis of Postal Service’s assertion that the proposal will lead to a reduction in the number of air charters rather than an underutilization of air charter capacity on air charter flights that carry other mail products. See, e.g., USPS-T-1 at 37.

- ii. If yes, please identify the number of such exclusive air charters flights and corresponding volume of FCPS moved by FCPS-exclusive air charters flights in FY 2020.

13. Please refer to USPS-T-1 at 11. The Postal Service states that:

Under the present business rules, there are cases where the SCF is closer to origin facilities and has a 2-day service standard, while the parent ADC is beyond the 6-hour drive time and therefore has a 3-day service standard. In these situations, to meet the service commitments to the subordinate SCR, the origin facility must make a separation for the SCF's volume and in some cases plan specific transportation to the SCF to meet the service commitments.

- a. Please identify which facility in the flow chart on page 11 would constitute a "Parent ADC."
- b. Please explain what is meant by "meet[ing] the service commitments to the subordinate SCF."
- c. Please elaborate on the existing situation in which "the SCF is closer to origin facilities and has a 2-day service standard, while the parent ADC is beyond the 6-hour drive time and therefore has a 3-day service standard."
 - i. Please provide a flow chart (or other diagram) that shows the process in which an "origin facility [makes] a separation for the SCF's volume and in some cases plan[s] specific transportation to the SCF to meet the service commitments." See *id.*
 - ii. In these situations, where the SCF is closer to the origin facility than the parent ADC, please explain why FCPS would not be transferred directly between the origin facility and the SCF (bypassing the parent ADC).
 - iii. Please quantify the annual percentage of FCPS volume that which "the SCF is closer to origin facilities and has a 2-day service standard, while the parent ADC is beyond the 6-hour drive time and therefore has a 3-day service standard" since FY 2017. *Id.*

14. Please refer to USPS-T-1 at 35. The Postal Service states that “[a]s shown in USPS-LR-N2021-2-NP2, the percentage of pharmaceutical FCPS volume projected to be subject to a two-day service standard increases; and the percentage of pharmaceutical FCPS volume projected to be subject to a three-day service standard decreases.”
- a. Please identify the file and worksheet names in Library Reference USPS-LR-N2021-2-NP2 that contain the service standard projections for pharmaceutical FCPS volume.
 - b. Please describe the assumptions and methodology used in the model that supports the Postal Service’s service standard projections for pharmaceutical FCPS volume.
 - c. Please explain the process by which the Postal Service identifies pharmaceutical FCPS volume from origin to destination.
 - d. Please confirm that the Postal Service has the ability to track pharmaceutical FCPS packages throughout the network.
 - i. If confirmed, please identify the system used to track pharmaceutical FCPS packages.
 - ii. If not confirmed, please explain the basis for the Postal Service’s projections for pharmaceutical FCPS volume.

The following question refers to witness Kim’s testimony (USPS-T-2):⁸

15. Please see Attachment, filed under seal.

Ann C. Fisher
Presiding Officer

⁸ Direct Testimony of Michelle Kim on Behalf of the United States Postal Service (USPS-T-2), June 17, 2021 (USPS-T-2).